

GILLAM & ZETZL, INC.

Certified Public Accountants December 2018

Enclosed please find your organizer for the 2018 filing season. The organizer will assist you in gathering your tax information by showing you what was reported on your 2017 return. As we discussed in our newsletter last December, Congress passed a major tax reform bill that has many implications for 2018 and beyond. A summary of the changes is provided on our website. Below we have highlighted some tax changes that will impact 2018 and year-end reminders. If you should have any questions, please don't hesitate to contact us.

Like last year, most individuals are required to have minimum essential health insurance coverage or pay a penalty (note that the tax reform bill did not remove the penalties until 2019). Included in this packet of information is an Affordable Care Act checklist which you must complete, sign and return to us with your other tax information. **We also need copies of any 1095 forms you receive.**

Last year we warned you about numerous scams perpetrated by individuals attempting to steal your personal identity information via telephone calls or emails. Please stay vigilant and call our office if you have concerns about the legitimacy of a communication you receive.

Do you have any foreign financial accounts? Generally, all U.S. persons are required to file FinCEN Form 114, *Report of Foreign Bank and Financial Accounts* (FBAR), annually if they have a financial interest in or signature authority over, financial accounts, including bank, securities or other types of financial accounts in a foreign country and the aggregate value of these financial accounts exceeded \$10,000 at any time during the calendar year. Failure to file an FBAR when required may potentially result in civil penalties, criminal penalties or both. We have not been engaged to prepare your FBAR. However, we are available to assist you in meeting this filing obligation at your request. **It is your responsibility to inform us of all financial interest in or signature authority over foreign financial accounts.**

Important Tax Law Changes - Individual (see our website for comprehensive list)

- The standard mileage rate for business use of a vehicle was 54.5 cents-per-mile for 2018.
- The maximum rate for long-term capital gains for 2018 remains at 15% for many taxpayers; however, upper income taxpayers will pay a maximum rate of 20%.
- An additional Medicare tax of 0.9% was added for 2013 and remains in effect. This tax applies to wages, self-employment income, and railroad retirement compensation **in excess of \$250,000** (married filing jointly), \$125,000 (married filing separately), and \$200,000 (any other filing status).
- Similarly a Net Investment Income (NII) tax of 3.8% was added for 2014 which also remains. This tax applies to the smaller of your net investment income or your modified AGI **in excess of \$250,000** (married filing jointly and qualifying widow(er)), \$125,000 (married filing separately), and \$200,000 (any other filing status). NII generally consists of interest, dividends, capital gains, passive investments and rental income. However, there are exceptions on rental income for "real estate professionals" and in self-rental situations.
- Personal exemption deductions are no longer allowed for 2018 (was \$4,050 per person in 2017).
- Standard deduction amounts have been expanded for 2018 to \$24,000 for married couples, \$12,000 for singles and \$18,000 for heads of households.
- Personal casualty and theft losses are not permitted after 2017.
- For 2018 the child tax credit was increased from \$1,000 to \$2,000 per qualifying child. Phase out levels were greatly increased to \$400,000 AGI for married taxpayers and \$200,000 for all others.
- A new \$500 credit was added for 2018 for qualifying dependents that are not qualifying children.
- State and local taxes are still deductible on Schedule A, but are limited to \$10,000 in total for years after 2017.
- Interest on home equity loans is no longer deductible unless the funds are utilized for home improvements.

- Medical expenses are still deductible for 2018, but all taxpayers now use the same floor of 7.5% of AGI.
- For years after 2017 no charity deduction is allowed for amounts paid to a college that include athletic seating rights.
- "Miscellaneous" itemized deductions (including employee business expenses, financial services fees, safe deposit boxes, etc.) are no longer deductible for years after 2017.
- Alimony is not deductible by the payor, nor includible as income by the payee for agreements entered into after December 31, 2018.
- Moving expenses are not deductible for years after 2017, and employer paid moving costs are a taxable fringe benefit to the employee.
- Alternative Minimum Tax (AMT) exemption phase out ranges were increased for 2018 which should benefit most taxpayers.
- "Kiddie Taxes" related to investment income of children under age 19 (or under 24 if a full-time student) will be taxed at trust return rates beginning in 2018 (instead of their parent's tax rate) for amounts exceeding \$2,100.
- The gift tax exclusion amount is \$15,000 per donee for 2018. The federal estate tax exclusion is currently \$11,180,000 for 2018. Indiana's inheritance tax has been repealed for individuals who pass away after December 31, 2012.

Individual Reminders

- We are required to report on your income tax return the amount of any distributions from a health savings account (HSA), even if the funds were properly used for qualified medical costs. Please provide us with a copy of the Form 1099-SA from your HSA administrator.
- All charitable deductions of any amount must have a receipt. Any individual contribution over \$250 must also have an acknowledgement letter from the charity. Note: most "go-fund-me" donations are not deductible because the contribution is not to an IRS recognized charity. Also, the IRS is intensifying efforts to audit non-cash donations so be sure to retain documentation like detailed receipts and photographs.
- The IRS is now requiring taxpayers to obtain Form 1098-T for higher education expenses in order to claim education credits and/or deductions. Please provide us a copy of this form if you wish to claim these expenses on your 2018 income tax return.
- Indiana allows a deduction of up to \$1,000 for K-12 dependents in private or home schools for expenses related to tuition, books, etc.
- Distributions from 529 plans are tax-free when used for tuition, room and board, fees, books, computers and related software. Also keep in mind that Indiana "College Choice" plans are eligible for a credit of 20% of the contribution up to a maximum credit amount of \$1,000.

Business Deductions and Important Law Changes (see our website for details)

As in previous years we urge you to develop a mindset that you may be asked by taxing agencies to produce your documentation when organizing your records this year end. With that in mind, please take a moment to review the items below and please don't hesitate to contact us regarding specific questions about your business.

- Corporate income tax rate is set at a flat 21% for years after 2017.
- "Luxury" automobile depreciation limits have been increased for 2018.
- Farm equipment lives and methods have been accelerated for items placed in service in 2018.
- The Code §179 expensing election for equipment is \$1,000,000 for 2018 but the Indiana limit remains only \$25,000. In addition, 100% "bonus" depreciation deductions are available for eligible items purchased after September 27, 2017.
- Business interest deductions are limited for years after 2017 to 30% of the entity's adjusted taxable income. Disallowed amounts may be carried forward.
- For losses arising after 2017 the Net Operating Losses (NOLs) may only be carried forward (except for certain farm applications). Previously, NOLs could be carried back to prior years to create refund opportunities.

- The old Domestic Production Activities Deduction of 9% has been replaced with a new Qualified Business Income Deduction of 20%. While potentially very taxpayer friendly, this is a very complex new deduction which we will discuss with you when preparing your return.
- **Be sure to file 1099 forms** for contractors over \$600, for rental payments or attorney fees paid. Intentionally disregarding this responsibility is a \$530 penalty for each 1099 not filed. Also note that the filing deadline to submit copies to the IRS and the recipient has advanced to January 31, 2019.
- All business expenses must be ordinary and necessary to be deductible. In addition, deductions reported on an income tax return must be verifiable. To corroborate an amount a taxpayer must have a receipt that indicates the vendor, amount, date and a description of the item or service purchased. Merely having a credit card statement (including American Express) that details the charges is not enough. You must have receipts. The backup documents must be maintained for as long as the statute of limitations remains in effect. **We recommend keeping the information for a minimum of six years.**
- Business meals with clients, customers or employees may be deductible only if the meal is (1) directly related to the active conduct of your business and (2) a substantial and bona fide business discussion takes place. Proof that these requirements were met must be documented on the receipt or in a separate journal. Meals where only business owners and their families are present are only deductible when traveling away from home. "Away from home" means requiring an overnight stay.
- Entertainment expenses are not deductible beginning in 2018.
- Reimbursements to employees for business deductions must fall under an "accountable plan." This means that employees must provide receipts to their employer for the expenses. Reimbursing an employee without substantiating the expense will require treating the amounts as wages, subject to all the related payroll tax burdens.
- The personal portion of automobiles provided to employees must be included in their compensation unless they reimburse the employer for the personal usage. **Contemporaneous logs of automobile usage are required to validate the deduction.** The log should include dates, customers/vendors visited and the business purpose for each trip as well as the total miles driven on the vehicle during the year.

Planning Tips

- IRAs: Name specific beneficiaries to allow distributions over the beneficiary's life expectancy. If the IRA simply gets distributed through an estate the funds must be distributed (and taxed) within five years from date of death.
- If you regularly incur expenses related to your work as an employee, encourage your employer to reimburse those costs to you under an "accountable plan."
- We anticipate many taxpayers will no longer itemize deductions which reduce the federal tax benefits for charitable givers. However, if you are over age 70 ½ and must take required minimum distributions from an IRA, consider make direct transfer to your charity. This can reduce taxable income even if you cannot itemize.

Other

In an effort to protect taxpayer personal information the IRS is now requiring that we obtain a written consent signed by our clients in order to release any information to a third party. We are happy to accommodate your request to release copies of tax returns, financial statements or other documents to banks, insurance companies and others, but keep in mind that we will need the consent form before processing your request.

Gillam & Zetzi will continue to provide clients with electronic copies of tax returns (in a PDF format), however paper copies are available if you prefer. If the electronic option is chosen, we will email the returns to you, or provide them on a portable storage device. All electronic returns will be password protected, and can be read with a free Adobe PDF application.

Thank you for the opportunity to be of service to you!

Happy Holidays from everyone at Gillam & Zetzi, Inc.